

Message Text

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ACTION EUR-25

INFO OCT-01 AF-10 ARA-16 EA-11 NEA-14 IO-14 ISO-00 EURE-00

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00

EB-11 FEAE-00 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20

STR-08 TRSE-00 PA-04 PRS-01 USIA-15 DRC-01 /237 W

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P R 261718Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 1598

INFO AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY OTTAWA

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY THE HAGUE

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AMEMBASSY BEIRUT

AMEMBASSY TEHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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AMEMBASSY TRIPOLI

USINT ALGIERS
AMEMBASSY LAGOS
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY JAKARTA
AMEMBASSY LIBREVILLE
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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: FINANCIAL TIMES ARTICLE ON USG PREDICITON OF
WORLD SURPLUS OF OIL SUPPLIES.

1. JUNE 25 FINANCIAL TIMES CARRIES FRONT PAGE ARTICLE
CAPTIONED "US PREDICTS WORLD SURPLUS OF OIL SUPPLIES"
WHICH CONTAINS DETAILED ACCOUNT OF US PAPER SUBMITTED TO
ECG AD HOC GROUP ON MARKET OUTLOOK. FINANCIAL TIMES RE-
PORT BY LORELIES OSLAGER IS DATELINED BRUSSELS JUNE 24.

2. TEXT FOLLOWS:

OIL SUPPLIES ARE LIKELY TO OUT-RUN DEMAND FOR THE COMING
12 MONTHS AT CURRENT PRODUCTION LEVELS AND PRICES, ACCORD-
ING TO U.S. ESTIMATES SUBMITTED TO THE MAIN CONSUMER
NATIONS. "THE PRESENT COMBINATION OF FREE WORLD OIL
PRODUCTION AND PRICE LEVELS IS UNSUSTAINABLE. REDUCTION
IN OUTPUT, PRICES, OR BOTH, SEEMS LIKELY THIS SUMMER." THE
U.S. PAPER ARGUED.

THE PAPER WHICH WAS SUBMITTED FOR DISCUSSION TO A WORKING
PARTY OF THE 12-NATION WASHINGTON ENERGY CO-ORDINATION
GROUP HERE EARLIER THIS MONTH, ESTIMATES SURPLUS PRODUC-
TION AT 1.5 M. BARRELS A DAY DURING THE SECOND HALF OF
THIS YEAR AND AT 2.7M. BARRELS A DAY DURING THE FIRST SIX
MONTHS OF 1975.

BECAUSE OF THE ECONOMIC DOWN-TURN IN MAJOR INDUSTRIAL
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COUNTRIES, SAVINGS INDUCED BY HIGHER OIL PRICES, CONSER-
VATION PROGRAMMES AND THE MILD WINTER WEATHER, CONSUMP-
TION IN THE NON-COMMUNIST WORLD THIS YEAR WOULD REMAIN
MORE OR LESS AT LAST YEAR'S LEVEL, THE PAPER ARGUED. IT
WOULD AVERAGE 48M. B/D DURING THE FIRST HALF AND 49.8M.
B/D DURING THE SECOND HALF.
IN THE FIRST HALF OF 1975, GROWTH IN OIL CONSUMPTION
COULD BE EXPECTED TO ACCELERATE AS ECONOMIC RECOVERY

STRENGTHENED. CONSUMPTION COULD INCREASE TO 51M. B/D, WHILE SAVINGS INDUCED BY HIGH PRICES AND CONSERVATION PROGRAMMES WERE EXPECTED TO CONTINUE AT ABOUT THE 1974 LEVEL. THE PAPER ESTIMATES SAVINGS AT 3.5M B/D THIS YEAR AND 3.3M. B/D DURING THE FIRST HALF OF NEXT YEAR. ON THE SUPPLY SIDE, THE U.S. ESTIMATES THAT 49.83M. B/D ARE AVAILABLE FOR THE NON-COMMUNIST WORLD DURING THE FIRST HALF OF 1974, INCLUDING NATURAL GAS LIQUIDS AND NET IMPORTS FROM COMMUNIST COUNTRIES. THIS WAS 2.5 PER CENT LESS THAN IN SEPTEMBER, 1973, BUT 1.9 PER CENT MORE THAN DURING THE FIRST HALF OF THAT YEAR. IN APRIL OF THIS YEAR, THE OPEC COUNTRIES HAD ABOUT 4.5M B/D OF UNUSED PRODUCTIVE CAPACITY OF WHICH ABOUT 4M. B/D WERE IN THE ARAB COUNTRIES, PARTICULARLY LIBYA AND KUWAIT. "OIL PRODUCTION CAPACITY IN OPEC COUNTRIES WILL CONTINUE TO GROW DURING THE SECOND HALF OF 1973 AND THE FIRST HALF OF 1975, MAINLY AS A RESULT OF EXPANSION PLANS IN SAUDI ARABIA, IRAN AND IRAQ." THE PAPER ARGUED. "BY THE FIRST HALF OF 1975, CAPACITY WILL EXCEED BY 22 PER CENT, THE LEVEL OF OPEC OUT-PUT THAT WE BELIEVE WILL BE NEEDED TO MEET FREE WORLD DEMAND." WORLD PRICES UNTIL THE MIDDLE OF NEXT YEAR WOULD THEREFORE BE DETERMINED BY THE PRODUCTION POLICIES OF THE INDIVIDUAL OPEC COUNTRIES. OF THESE, IRAN, NIGERIA, ALGERIA AND INDONESIA WOULD PROBABLY PRODUCE AT OR NEAR CAPACITY NEXT YEAR, THE PAPER SAID, ALTHOUGH IRAN MIGHT CONSIDER PRODUCTION CUTS IF PRICES FELL DRASTICALLY.

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P R 261718Z JUN 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 1599
INFO AMEMBASSY OSLO
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SAUDI ARABIA, THE UNITED ARAB EMIRATES AND QATAR WERE
LIKELY TO MAKE THEIR PRODUCTION LEVELS DEPENDENT ON

POLITICAL FACTORS. SAUDI OUTPUT WOULD PROBABLY INCREASE ROUGHLY IN LINE WITH PRODUCTION CAPACITY AS LONG AS THEY WERE SATISFIED WITH THE PROGRESS MADE TOWARDS AN ARAB-ISRAELI SETTLEMENT. THE SAUDIS' DESIRE TO REDUCE OIL PRICES SHOULD LEAD TO INCREASED PRODUCTION. "THE EMIRATES AND QATAR WILL PROBABLY FOLLOW THE SAUDIS' LEAD."

THE REMAINING OPEC MEMBERS - KUWAIT, IRAQ AND LIBYA - WERE "MOST DIFFICULT" TO CATEGORISE, THE PAPER SAID. BUT "FOR POLITICAL AS WELL AS ECONOMIC REASONS, IRAQ AND LIBYA ARE LIKELY TO RESIST ANY SAUDI ATTEMPT TO REDUCE PRICES. EVERYTHING CONSIDERED, WE BELIEVE THAT THESE COUNTRIES WOULD CONSIDER CUTTING PRODUCTION IN AN EFFORT TO HALT A SHARP DECLINE IN PRICES."

BASED ON THIS ASSESSMENT OF PRODUCTION INTENTIONS, THE PAPER ESTIMATES THAT TOTAL OPEC PRODUCTION WILL AMOUNT TO 32.9M. B/D DURING THE SECOND HALF OF THIS YEAR AND 34.8M. B/D DURING THE FIRST SIX MONTHS OF 1975, WHILE THE NON-COMMUNIST WORLD WOULD NEED OPEC SUPPLIES OF 31.4M.B/D AND 32.1M. B/D.

IN THE MEANTIME, DETAILS HAVE BECOME KNOWN OF THE U.S. PROPOSALS FOR AN "INTEGRATED EMERGENCY PROGRAMME" WHICH LIMITED OFFICIAL USE

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THE CONSUMER NATIONS COULD ADOPT IN CASE OF SUPPLY DIFFICULTIES. IT WAS SUBMITTED TO THE FULL ENERGY COORDINATION GROUP LAST WEEK. STRESSING THAT THEY WERE ONLY ADVANCING IDEAS AND NOT TAKING UP AN OFFICIAL GOVERNMENT POSITION, THE U.S. SUGGESTED THAT AN EFFECTIVE EMERGENCY PROGRAMME SHOULD INCLUDE SHARING OF DOMESTIC OIL PRODUCTION AS WELL AS IMPORTS ON THE BASIS THAT ALL COUNTRIES SHOULD ADOPT COMMON CONSERVATION MEASURES AS WELL AS COMMON MEASURES ON STOCKPILING. END TEXT.

ANNENBERG

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